

ILLINOIS POWER COMPANY

ILLINOIS COMMERCE COMMISSION

DOCKET NO. 01-0432

EXHIBITS SPONSORED BY PEGGY E. CARTER

NOVEMBER 14, 2001

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PREPARED SURREBUTTAL TESTIMONY OF PEGGY E. CARTER

NOVEMBER 14, 2001

I. Introduction and Witness Qualifications

1. Q. Please state your name, business address and present position.

A. Peggy E. Carter, 500 South 27th Street, Decatur, Illinois 62521. I am Vice President and
Controller of Illinois Power Company ("Illinois Power", "IP" or the "Company").

2. Q. Have you previously submitted testimony and exhibits in this proceeding?

A. Yes, I have previously submitted direct, supplemental and rebuttal testimony in this proceeding.
My direct testimony and exhibits were identified as IP Exhibits 1.1 through 1.30. My
supplemental testimony has been marked as IP Exhibit 1.31 and was accompanied by IP
Exhibits 1.32 and 1.33 and Corrected Revised IP Exhibits 1.2, 1.3, 1.5, 1.7, 1.9, 1.10, 1.11,
1.22, 1.23, 1.26 and 1.28. My rebuttal testimony has been marked as IP Exhibit 1.34 and was
accompanied by IP Exhibits 1.35 through 1.62.

II. Purpose and Scope

3. Q. What is the purpose of your surrebuttal testimony?

A. I will respond to issues raised by Staff witnesses Hathhorn, Everson, Pearce and Lazare. I will
also address certain issues raised by Illinois Industrial Energy Consumers ("IIEC") witness

Phillips and Citizens Utility Board/Attorney General (“CUB/AG”) witness Effron.

4. Q. In addition to your surrebuttal testimony in IP Exhibit 1.63, which consists of questions and answers 1 through 82 inclusive, are you sponsoring any other exhibits?

A. Yes, I am sponsoring IP Exhibits 1.64 through 1.77, which were prepared under my supervision and direction.

III. Rate Base

5. Q. What issues will you address in your surrebuttal testimony related to rate base?

A. I will address the following issues:

A. Functionalization of General and Intangible (“G&I”) plant;

B. Inclusion of known and measurable capital additions;

C. Accumulated depreciation associated with plant in service as of December 31, 2000;

D. Exclusion of certain deferred income taxes from rate base; and

E. Capitalization of severance costs.

6. Q. Do you have any comments regarding the positions set forth in the rebuttal testimony of Staff witness Ms. Everson?

A. Yes, there are three items that I would like to address. The first item relates to the adjustment Ms. Everson makes to the Company’s proposed level of cash working capital. It appears that Ms. Everson has adopted the Company’s methodology of calculating cash working capital. (Staff Ex. 11.0, p. 3, beginning at line 46). Accordingly, her adjustment merely reflects the impacts of other adjustments to rate base and operating expenses proposed by the Staff

witnesses. The Company agrees that the final level of cash working capital should be based upon the level of rate base, operating expenses and return approved by the Commission.

7. Q. What is the second item pertaining to the rebuttal testimony of Ms. Everson?

A. Both Ms. Everson and CUB/AG witness Effron have reflected a change to the Company's proposed level of Accumulated Deferred Income Taxes. The Company identified the need for this adjustment in response to a data request from Mr. Effron. Specifically, the amount shown on IP Exhibit 1.41, which was submitted with my rebuttal testimony, was in error. Ms. Everson and Mr. Effron have proposed an adjustment to increase accumulated deferred income taxes by \$12,938,000. While IP agrees with the need for a correction as identified by Ms. Everson and Mr. Effron, the amount of the adjustment is different because it is now reflecting accumulated deferred taxes through September 30, 2001 associated with plant in service at December 31, 2000. The corrected adjustment is shown on IP Exhibit 1.74.

8. Q. What is your third comment pertaining to the rebuttal testimony of Ms. Everson?

A. In its rebuttal testimony, the Company included known and measurable capital additions through August 31, 2001, based on the "funded projects" criteria that Ms. Everson identified in her direct testimony. Ms. Everson has accepted the Company's proposed capital additions as reflected in its rebuttal filing. (Staff Ex. 11.0, p. 2, beginning at line 33). Subsequent to the filing of its rebuttal testimony, the Company provided Ms. Everson with updated information on capital additions through September 30, 2001, using the "funded projects" criteria. The

55 Company's proposed rate base reflects the level of known and measurable capital additions,
56 employing the "funded projects" criteria, as of September 30, 2001.

57 9. Q. Are you submitting changes to previously filed exhibits pertaining to rate base that have changed
58 as a result of your surrebuttal testimony?

59 A. Yes, the following exhibits reflect changes to my previously filed exhibits:

60 * IP Exhibit 1.64 (supersedes IP Exhibit 1.35) reflects the corporate capital additions as of
61 September 30, 2001 which meet the "funded projects" criteria. The change reflects actual
62 loading rates on corporate G&I plant expenditures through September 30, 2001. The
63 projects and amounts shown on this exhibit constitute the actual expenditures as of
64 September 30, 2001, and remaining expenditures, on projects for which funding approval
65 had been obtained as of September 30, 2001. Mr. Barud is presenting a similar update in
66 his surrebuttal testimony for Energy Delivery capital additions.

67 * IP Exhibit 1.65 (supersedes IP Exhibit 1.36) reflects the increase to the Accumulated
68 Reserve for Depreciation associated with the capital additions.

69 * IP Exhibit 1.66 (supersedes IP Exhibit 1.37) reflects the updated calculation of cash working
70 capital incorporating the various revisions to the Company's proposed rate base, operating
71 expenses and return made in surrebuttal testimony.

72 * IP Exhibit 1.67 (supersedes IP Exhibit 1.38) reflects the increase in Accumulated Deferred
73 Income Taxes associated with the capital additions.

* IP Exhibit 1.74 (supersedes IP Exhibit 1.41) reflects Accumulated Depreciation and Accumulated Deferred Income Taxes from January 1, 2001 through September 30, 2001 on plant in service at December 31, 2000.

* IP Exhibit 1.75 (supersedes IP Exhibit 1.43) reflects the increase in depreciation and amortization expense associated with the level of pro forma plant additions presented in IP's surrebuttal case.

A. Functionalization of General and Intangible Plant

10. Q. Have you reviewed the rebuttal testimony of Staff witness Lazare regarding the functionalization of General and Intangible Plant?

A. Yes, I have.

11. Q. Please summarize the positions set forth by Mr. Lazare in his rebuttal testimony.

A. Staff witness Lazare continues to question the Company's functionalization of G&I plant. His concern arises from a comparison of the levels of G&I plant proposed by the Company and ultimately determined by the Commission to be allocated to the electric distribution function in the Company's 1999 DST case, and the level of G&I plant that IP has allocated to the electric distribution function in this proceeding. Mr. Lazare asserts that the increase in the amount of G&I plant allocated to the electric distribution function in this case is due to a failure to use the labor allocator approved by the Commission in the 1999 DST case to allocate a portion of G&I plant to the generation function, even though IP owned virtually no generation and had virtually no generation labor in the test year. Mr. Lazare's proposed adjustment limits the G&I plant

allocated to the electric distribution business to the amount allocated to electric distribution in the 1999 DST case, plus an increase equal to the proportional increase in distribution plant since the 1999 DST case.

12. Q. Do you have a general observation about Mr. Lazare's rebuttal testimony?

A. Yes, it appears to consist largely of restating things he said in his direct testimony on this topic.

To the extent Mr. Lazare has made specific additional comments in his rebuttal testimony on this topic, I will respond below.

13. Q. Does the Company assign or allocate G&I plant to its business functions for financial reporting purposes?

A. No, the Company's G&I plant is recorded in the appropriate FERC general and intangible plant accounts. The assets are functionalized only for ratemaking purposes.

14. Q. For purposes of this proceeding, did the Company employ the labor allocator methodology approved by the Commission in the 1999 DST case?

A. Yes, the Company allocated G&I plant based upon the percentages of labor dollars incurred in the test year associated with gas, electric transmission, and electric distribution functions. As I have indicated, IP had virtually no generation labor expense in 2000.

15. Q. Why do you say IP had "virtually no generation labor expense in 2000?"

A. In its FERC Form 1, IP reported approximately \$30,000 of labor dollars in 2000 in generation accounts. This amount was in fact charged in error to the generation O&M accounts. IP actually incurred no generation labor expense in 2000.

114 16. Q. Does the labor allocator used in this proceeding produce results similar to those derived in the
115 1999 DST case?

116 A. No, as I discussed in my rebuttal testimony, the structure of IP has changed since the 1999
117 DST case. IP divested the generation function in the fourth quarter of 1999. As of January 1,
118 2000, IP's only generation is 50% ownership of 5.25 megawatts of turbine capacity at a
119 customer's site. Accordingly, the Company incurred essentially no labor costs attributable to
120 the generation function in 2000. Therefore, when G&I plant was allocated using the labor
121 allocator, there was no allocation to the generation function. The calculation of the labor
122 allocator employed in this proceeding is shown on IP Exhibit 1.4. The exhibit shows the amount
123 of labor expense for the gas, electric transmission and electric distribution businesses for the
124 twelve months ended December 31, 2000. No labor expense is included for the generation
125 function because, as I previously discussed, the Company recorded approximately \$30,000 of
126 labor expense (which was in fact recorded incorrectly) in the generation O&M accounts during
127 2000.

128 The Company sold or transferred the G&I plant that was directly associated with the Clinton
129 Nuclear Station and the fossil generating facilities, respectively, to the new owners of those
130 facilities. The G&I plant that remains on the Company's books is used exclusively in support of
131 IP's gas, electric transmission and electric distribution businesses.

132 17. Q. Has any party to this proceeding questioned the calculation of the labor allocator used by the
133 Company in this proceeding?

134 A. To the best of my knowledge, no party has disputed the Company's calculation of the labor
135 allocator.

136 18. Q. How do you respond to Mr. Lazare's assertion that the Company has selectively used the labor
137 allocator (Staff Ex. 14.0, p. 3, lines 65 through 68)?

138 A. Mr. Lazare's assertion is without merit. The Company's G&I plant was allocated employing a
139 labor allocator calculated in the same manner as the approach ordered by the Commission in
140 the 1999 DST case. In fact, it is Mr. Lazare who has departed from the labor allocation
141 methodology. Mr. Lazare instead proposes limiting the G&I plant amounts to a level that is
142 consistent with the increase in distribution plant balances in this case over the amount approved
143 by the Commission in the 1999 DST case.

144 19. Q. Is Mr. Lazare correct in asserting that the Company has transferred to electric distribution G&I
145 plant that the Commission had determined is associated with the generation function?

146 A. No, Mr. Lazare lacks a fundamental understanding of the nature of common costs. He
147 mistakenly believes that G&I plant was assigned (as opposed to allocated) to the generation
148 function in the 1999 DST case. In effect, he believes that the amounts of G&I plant allocated
149 to, respectively, the generation, transmission, distribution and gas functions in the 1999 DST
150 case (and the specific assets they represent) would be sufficient to support each of these
151 business functions on a stand-alone basis. Stated differently, he seems to believe that the
152 Commission determined in the 1999 DST case that there is a fixed and unchanging proportional
153 relationship between the amount of G&I plant investment and the amount of electric distribution

154 plant investment needed in the electric distribution business. That is the necessary implication of
155 his proposal to limit the amount of G&I plant allocated to distribution to the amount allocated to
156 distribution in the 1999 DST case plus an increase equal to the percentage increase in
157 distribution plant since the 1999 DST case.

158 20. Q. Please explain why you believe Mr. Lazare lacks a fundamental understanding of the nature of
159 common costs.

160 A. As I explained in my rebuttal testimony, while some G&I plant can be directly assigned to a
161 particular line of business, the remainder of the assets captured in G&I accounts support
162 multiple lines of business. Mr. Lazare appears to believe that if a line of business ceases to
163 exist, that the G&I plant previously allocated to that line of business can also go away, or, stated
164 differently, that the amount of G&I plant which had been allocated to the remaining lines of
165 business would be sufficient to support them. Such a belief is without foundation. For example,
166 bucket trucks and backhoes were allocated in part to the generation function in the 1999 DST
167 case; however, these assets are clearly needed to support the gas, electric transmission and
168 electric distribution businesses. General office buildings and personal computers used by the
169 accounting staff would be other examples of such common, allocable assets. When the
170 Company exited the generation business, the G&I plant that was allocated to the generation
171 function by the labor allocator in the 1999 DST Order did not cease to exist, nor could the
172 portion of G&I plant that had been allocated to the generation function be some how broken
173 apart, and sold or transferred to the new owners of IP's generating facilities (other than the

specifically identifiable G&I plant which IP in fact transferred to the new owners). Rather, these G&I assets continue to be needed to support the remaining lines of business.

21. Q. Mr. Lazare states that he is not seeking to classify investments such as bucket trucks, backhoes and other distribution vehicles as generation related, and is not seeking to deny recovery of distribution-related investment. (Staff Ex. 14.0, pp. 9-10). How do you respond?

A. While Mr. Lazare may not intend to classify assets such as bucket trucks and backhoes as generation-related, that is the result of his proposed adjustment. In the 1999 DST case, the use of the labor allocator resulted in the investment in equipment such as bucket trucks, backhoes and other distribution vehicles being allocated among the generation, transmission, distribution and gas functions. In this case, IP's application of the labor allocator results in the investment in these assets being allocated among the electric transmission, electric distribution and gas businesses. The result of accepting Mr. Lazare's position would be that a portion of the investment in bucket trucks, backhoes and other distribution vehicles would continue to be treated as "generation-related", and denied recovery in IP's distribution rates.

22. Q. Is Mr. Lazare correct in implying that IP is attempting to allocate G&I plant by direct assignment in this case? (Staff Ex. 14.0, p. 10)

A. No, the Company has allocated all of the G&I plant in this case using the labor allocator.

23. Q. How do you respond to Mr. Lazare's claims that IP does not explain how it "refunctionalized" G&I plant when it divested its generation assets? (Staff Ex. 14.0, p. 3, lines 47 through 50).

A. I do not know what he means by "refunctionalized" in this context. However, in my rebuttal

194 testimony, I explained what G&I plant was transferred and sold to DMG and AmerGen,
195 respectively, in connection with the sale of the generation facilities. (IP Ex. 1.34, beginning on p.
196 13). As I explained there, the G&I plant that could be identified with the generation facilities
197 was transferred with them. Other G&I plant was not identifiable or severable in this manner and
198 thus was retained by IP where it continues to support IP's existing business functions. This
199 remaining G&I plant has been allocated among the remaining business functions for ratemaking
200 purposes in this case, using the labor allocator.

201 24. Q. Mr. Lazare continues to assert that the testimony of Company witness Alec Dreyer in Docket
202 99-0209, which Mr. Lazare quoted in his direct testimony, must have been intended to
203 encompass delivery services customers as well as bundled electric service customers. (Staff Ex.
204 14.0, p. 5) What is your response?

205 A. Mr. Lazare continues to ignore the context in which the statements in Mr. Dreyer's testimony
206 were made. They were made in testimony presented in an asset transfer case under Section
207 16-111(g) of the Public Utilities Act. Although I am not a lawyer, it is my understanding that the
208 only two grounds on which the Commission is allowed to investigate a proposed Section 16-
209 111(g) transfer of generation assets for the purpose of determining if it should be disapproved,
210 are (1) whether the proposed transaction will render the electric utility unable to provide its
211 tariffed services in a safe and reliable manner, and (2) whether there is a strong likelihood that
212 consummation of the proposed transaction will result in the electric utility being entitled to
213 increase its base rates during the mandatory transition period pursuant to subsection (d) of

214 Section 16-111. Neither of these topics would appear to implicate the level of future delivery
215 services rates. Mr. Dreyer's testimony was part of the Company's case which stated that the
216 applicable criteria in Section 16-111(g) were satisfied and that the Company should be allowed
217 to make the asset transfers it had filed. Thus, there is no basis to characterize Mr. Dreyer's
218 testimony as addressing the future level of delivery services rates when that is not one of the
219 topics in a Section 16-111(g) hearing.

220 25. Q. Do you have any other comments on Mr. Lazare's use of Mr. Dreyer's testimony from Docket
221 99-0209?

222 A. Yes, even if Mr. Lazare were correct (which he is not) that Mr. Dreyer was making a
223 commitment on behalf of IP that delivery services rates (which were not even in effect at the
224 time) would not be increased as a result of the transfer of IP's fossil assets to an affiliated
225 generating company, there is no basis to extend this "commitment" to IP's subsequent sale of its
226 nuclear generation to AmerGen. In terms of allocation of G&I plant using the labor allocator,
227 the majority of IP's generation labor dollars in the 1997 test year used in the 1999 DST Case
228 were nuclear generation labor, not fossil generation labor. Of a total of \$76,240,000 of
229 generation-related labor expenses, \$50,539,000 was attributable to nuclear generation.
230 Therefore, approximately 66% of the G&I plant allocated to generation in the 1999 DST case
231 was in effect, allocated to nuclear generation, and only 34 percent was allocated to fossil
232 generation.

233 26. Q. Mr. Lazare claims that IP diverged from both the Commission Order in the 1999 DST case and

234 from its own proposal in that docket when it sold or transferred G&I plant to the new owners of
235 its generation. (Staff Ex. 14.0, p. 6, beginning at line 132) How do you respond?

236 A. As I have explained previously, in the transfer of its fossil assets to an affiliate, IP also
237 transferred the G&I plant that had been directly assigned to the fossil generation function in IP's
238 asset separation study. The asset separation study was the basis for the allocations IP
239 proposed in the 1999 DST Case. G&I plant that could not be specifically assigned to the fossil
240 generation function was allocated among the Company's lines of business, including generation,
241 using allocation factors developed in the asset separation study. However, as I have explained,
242 this other G&I plant (such as general office buildings and personal computers or software used
243 by the accounting staff) was not severable and could not be transferred to the new owner of the
244 fossil generation facilities because it was still needed to support the Company's remaining
245 businesses. A similar description would apply to the sale of the nuclear generation and related
246 G&I plant to AmerGen.

247 The Company's Section 16-111(g) filings with respect to the transfer and sale of its
248 fossil and nuclear generation and related G&I plant listed the specific assets being transferred.
249 The Commission approved the transfer of the assets that the Company had listed in its filing.
250 Given the approval of the sale and transfer of specific items of property pursuant to Section 16-
251 111(g), IP did not have the authority to transfer more assets than the Commission had
252 approved.

I would also observe that Mr. Lazare states that \$33.6 million of G&I plant that was allocated to generation in IP's asset separation study was not, in fact, transferred to the new owners of IP's generating facilities. However, he is proposing to disallow \$135.8 million of G&I plant which he contends is generation-related. Further, Mr. Lazare fails to distinguish between the G&I plant that was directly assigned to the generation function versus the common G&I plant that was allocated to that function. As I have previously stated, only that G&I plant that was directly associated with the generating assets was transferred or sold to the new owners of the facilities. The G&I plant that was allocated to the generation function, but not directly associated with the transferred generating assets, was retained by IP.

27. Q. Does Mr. Lazare continue to compare IP's allocation of G&I plant to the allocation of G&I plant in the Ameren case, Docket No. 00-0802?

A. Yes, in commenting on my discussion of the two cases, Mr. Lazare states in his rebuttal testimony:

[Ms. Carter's testimony] ignores a critical difference in the IP and Ameren filings. Ameren has allocated General and Intangible Plant and A&G accounts to the generation function in conformance with the Commission's labor allocator. However, as a result of divesting generation, IP has reallocated to transmission and distribution costs that were previously allocated to generation. (Staff Ex. 14.0, p. 4, beginning at line 88)

The only "critical difference" between the two cases is that during its test year, Ameren still owned generation and still had generation labor, while during the test year in this case, IP owned virtually no generation and had virtually no generation-related labor dollars. Thus, IP and Ameren have employed the labor allocator methodology on a consistent basis to allocate their

277 respective G&I plant investments among their lines of business. It is Mr. Lazare who has
278 ignored the “critical difference” between this case and the Ameren delivery services case.

279 28. Q. Has Mr. Lazare presented any information that suggests that Ameren will continue to allocate a
280 portion of its G&I plant to generation in future cases that involve test years subsequent to the
281 date that Ameren divested its generation?

282 A. No, he has not.

283 29. Q. Are Illinois Power Company’s delivery services customers penalized by the Company’s
284 allocation of G&I plant?

285 A. No, IP’s delivery services customers are being appropriately charged for those assets that are
286 still being used in support of the Company’s electric distribution business.

287 30. Q. How do you respond to Mr. Lazare’s criticism of the analysis you presented in rebuttal
288 testimony of the changes in IP’s G&I plant accounts from 1997 to 2000?

289 A. IP Exhibit 1.39, which was submitted with my rebuttal testimony, sets forth a detailed
290 presentation, by FERC account, of the changes in the Company’s G&I plant accounts from
291 December 31, 1997 to December 31, 2000. I also described actions the Company has taken
292 to dispose of G&I assets that it no longer needs. Mr. Lazare’s only response is to complain
293 that the Company’s total G&I investment increased by \$14 million over this period even though
294 IP divested its generation facilities. Mr. Lazare has offered no evidence that IP’s G&I assets at
295 December 31, 2000 are not used in support of its existing lines of business (gas, electric

transmission and electric distribution), and he has failed to respond to my analysis in any meaningful way.

31. Q. Mr. Lazare's rebuttal testimony at pages 11-12 indicates that he believes even a portion of the Company's new G&I plant additions since January 1, 2000, subsequent to the Company's elimination of the generation function, should be treated as generation-related. What is your response?

A. First, Mr. Lazare states that the Company is arguing that the post-January 1, 2000 G&I plant additions "should be considered distribution-related in their entirety." This is incorrect. The Company has allocated these investments among the gas, electric transmission and electric distribution businesses using the labor allocator. Second, Mr. Lazare states that the descriptions of these additions in IP Exhibits 1.32, 1.33, 2.4 and 2.5 "fail to demonstrate that these additions could not serve other functions as well." While I would disagree with any suggestion that the descriptions on IP Exhibits 1.32 and 1.33, or IP Exhibit 1.35, indicate that the post-1999 property and equipment additions described there were or are being constructed, installed or procured in order to support the generation function, Mr. Lazare is correct that at least some of the items described on these exhibits could be used for "other functions." For example, personal computers and telecommunications equipment could be used by a wide variety of businesses. However, Mr. Lazare apparently would have the Commission believe that even after divesting its generation function, IP is continuing to construct, install and procure new G&I plant to support the generation function. This is simply not the case.

316 32. Q. Does IIEC witness Phillips also address the functionalization of G&I plant in his rebuttal
317 testimony?

318 A. Yes, Mr. Phillips continues to assert that G&I plant should be allocated to the electric
319 distribution business based on the increase in non-A&G O&M expense in this case over the
320 amount allowed in the 1999 DST case, plus new projects included in the Company's capital
321 additions adjustments as approved by the Commission.

322 33. Q. Has Mr. Phillips offered any additional support for his position in his rebuttal testimony?

323 A. No, Mr. Phillips merely cites one of the Company's responses to a data request in which I
324 stated that I have performed no studies related to the most economic and efficient level of G&I
325 plant required to provide distribution services to Illinois Power Company's customers. (IIEC
326 Ex. 6, p. 3, beginning at line 14).

327 34. Q. How do you respond to Mr. Phillips' rebuttal testimony?

328 A. I am unaware of any requirement that in each rate case, a public utility must present studies to
329 show that its existing plant investment constitutes the most efficient and economical level of plant
330 investment to provide service to the utility's customers. Such a requirement would seem to be
331 inconsistent with the original cost concept of ratemaking and would seem to suggest that, if the
332 most efficient and economical level of plant investment to serve the utility's customers were
333 greater than the utility's current depreciated original cost of plant in service, the higher figure
334 should be included in rate base. I am aware that an electric utility needs to justify new additions
335 to rate base. As I explained in Answer 17 of my rebuttal testimony, through its testimony in this

case and in the 1999 DST case, IP has justified its significant plant additions since at least 1992. However, while I have done no studies to determine that IP's current level of G&I plant investment is the most efficient and economical level for providing service to its customers, I can state that all of the Company's costs are under continuing review to find opportunities to reduce costs. I cited examples in my rebuttal testimony of actions IP has taken to dispose of unneeded G&I assets and to more efficiently use its remaining G&I assets. IP's current level of G&I plant is needed to support its existing utility business functions of gas, electric transmission and electric distribution.

35. Q. Do you continue to recommend that Mr. Lazare's and Mr. Phillip's proposed adjustments to G&I plant should be rejected?

A. Yes, I do.

B. Inclusion of Known and Measurable Capital Additions

36. Q. Does CUB/AG witness Effron continue to propose a limitation on post-test year plant additions?

A. Yes, Mr. Effron continues to support a limitation of post-test year plant additions to June 30, 2001. He claims that the inclusion of plant additions beyond that date represents the use of a future test year for certain elements of the revenue requirement. (GCI Ex. 4.0, p. 2, beginning at line 6).

37. Q. How do you respond?

A. The Commission has historically allowed known and measurable changes from the test year

level of expenditures. The Company has offered substantial support for the pro forma capital additions. Staff witness Everson has reviewed the supporting documentation and concluded that the Company had “provided updated actual amounts and information regarding the status of funding approval to support the level of plant additions”. (Staff Ex. 11.0, p. 2, beginning at line 33). The Company should have the opportunity to earn a return of and on those assets that will be in place during the period of time during which the rates established in this proceeding will be in effect.

38. Q. Does the inclusion of the plant additions constitute a future test year?

A. No, the inclusion of known and measurable changes to historical plant balances does not constitute the use of a future test year. A future test year would be premised upon budgets or expected levels of spending for all capital and expense items. The capital additions that are included in the Company’s rate base represent only those projects for which funding has been authorized as of September 30, 2001, and which either have been completed as of this date or will be completed by the time rates established in this proceeding go into effect.

39. Q. Has the Company made other adjustments to test year data consistent with the inclusion of capital additions for funded projects through September 30, 2001?

A. Yes. First, as I explain elsewhere in this testimony, the Company is also adjusting rate base to reflect (1) additional accumulated depreciation and accumulated deferred taxes from January 1, 2001 through September 30, 2001 on plant that was in service as of December 31, 2000, and (2) retirements from plant in service from January 1, 2001 through September 30, 2001.

Second, as IP witness Jones explained in his rebuttal testimony, the Company accepted Mr. Effron's proposal to base the number of customers in the billing determinants on an average for 2000 and 2001, and adjusted kwh and demand data in the billing determinants consistent with the adjustment to number of customers.

C. Accumulated Depreciation and Accumulated Deferred Taxes Associated with Plant in Service as of December 31, 2000

40. Q. In connection with the updated information on capital additions, is the Company making additional adjustments to the accumulated reserve for depreciation and the accumulated provision for deferred taxes?

A. Yes. The Company is further adjusting the Accumulated Reserve for Depreciation and the Accumulated Provision for Deferred Taxes to reflect additional depreciation and deferred taxes from January 1, 2001 through September 30, 2001 on plant in service as of December 31, 2000. In its rebuttal filing the Company had adjusted the depreciation reserve and deferred tax reserve for activity through June 30, 2001. The adjustments through September 30, 2001 are shown on IP Exhibit 1.74.

41. Q. Please respond to Mr. Effron's concerns related to the level of accumulated reserve for depreciation associated with the post-test year capital additions that the Company has included in rate base (Ex. GCI 4.0, pp. 1-2).

A. Mr. Effron believes that the Company has understated the change in the level of the Accumulated Reserve for Depreciation subsequent to December 31, 2000, because he

observes that the reserve balance decreased from January 1, 2001 through June 30, 2001, rather than increased, as a result of the Company's adjustment. The reason for the decrease in the accumulated reserve for depreciation associated with the plant additions is that the Company's adjustment reflects the cost of retirements and removal associated with the plant additions. As shown on IP Exhibit 1.68, there are significant retirements associated with certain of the Company's capital additions. The cost of retirements have a neutral effect on rate base, because both plant in service and the reserve for depreciation are reduced by the amount of the retirement. Mr. Effron correctly observes that the impact of the retirements reduces the reserve for depreciation, but he neglects to mention that the retirements also reduce plant in service.

D. Exclusion of Certain Deferred Income Tax Balances From Rate Base

42. Q. Has Mr. Effron proposed that certain deferred income tax balances be excluded from rate base?

A. Yes, in his direct testimony Mr. Effron excluded certain deferred income tax balances claiming that they were unrelated to items included in rate base. He continues to argue for this exclusion in his rebuttal testimony.

43. Q. Is Mr. Effron's adjustment appropriate?

A. No, with the exception of the two credit balances that Mr. Effron included in his adjustment, he continues to selectively choose those deferred tax items that support his position to reduce rate base.

44. Q. Are there additional deferred tax items that should be included if Mr. Effron's adjustment is

416 adopted?

417 A. Yes. Mr. Effron selectively chose various deferred tax balances to exclude from rate base.

418 There are additional deferred tax balances, both debit and credit, that should be excluded if Mr.

419 Effron's approach is accepted. These items are shown on IP Exhibit 1.69. Exclusion of all of

420 these items would reduce Mr. Effron's adjustment (and increase rate base) by \$11.5 million,

421 and result in a net reduction of rate base of \$626,000. IP Exhibit 1.69 shows this calculation.

422 45. Q. Is Mr. Effron's attempt to distinguish the Commission's rejection of his adjustment in Docket

423 89-0276 (Ex. GCI 4.0, p. 7) persuasive?

424 A. No. The specific deferred tax item involved in Docket 89-0276 was different but the concept

425 involved is the same.

426 46. Q. Do you have a recommendation for the Commission regarding Mr. Effron's adjustment to

427 deferred tax balances?

428 A. Yes, Mr. Effron's adjustment is one-sided in its approach and should therefore be rejected. If

429 the Commission were to determine that deferred tax balances associated with items that are not

430 considered in the determination of rate base should be excluded, both the debit and credit

431 deferred tax balances should be excluded. In that case, the Commission should make the

432 adjustment to decrease rate base by \$184,000, as shown on IP Exhibit 1.69.

433 **E. Capitalization of Severance Costs**

434 47. Q. Please summarize Staff witness Hathhorn's proposed adjustment to rate base pertaining to

435 severance costs.

436 A. The Company incurred severance costs during 2000 associated with the elimination of certain
437 positions. The Company capitalized a portion of the severance costs. Ms. Hathhorn argues
438 that no portion of the severance costs should have been capitalized, but rather that all of the
439 severance costs should have been expensed.

440 48. Q. Please respond to Ms. Hathhorn's position regarding capitalization of severance costs.

441 A. Ms. Hathhorn's adjustment is premised upon the belief that severance costs are not labor costs.
442 That assumption is incorrect. Severance costs are clearly labor costs. In fact, severance costs
443 are included as taxable wages for the severed employees.

444 As I stated in my rebuttal testimony, the Company treated severance costs in a manner
445 consistent with how the employees' normal labor costs were recorded. To the extent that a
446 portion of the routine labor cost was capitalized, a portion of the severance cost was
447 capitalized.

448 49. Q. Are the capitalized amounts based upon arbitrary percentages, as alleged by Ms. Hathhorn?

449 A. No. Actual severance costs were recorded in FERC Account 920. A portion of the expenses
450 charged to Account 920 are routinely capitalized. The percentage to be capitalized is
451 determined annually based upon a study, by group, of the level of support provided to other
452 business functions. Based upon the study, an A&G capitalized percentage is determined and
453 applied to all applicable costs. This same percentage was used to determine the amount of
454 severance costs to be capitalized.

The costs associated with early retirements and outplacement were charged to FERC Account 926. The amount of expense charged to Account 926 to be capitalized was determined by employing a ratio of capital labor dollars to total O&M and capital labor dollars. This same percentage was used to determine the amount of early retirement costs to be capitalized.

These consistently applied procedures reflect a systematic methodology for determining the appropriate ratios for capitalized costs.

50. Q. If the Commission adopts Ms. Hathhorn's adjustment to capitalized severance costs, how should the adjustment be reflected?

A. If the Commission adopts Ms. Hathhorn's adjustment, IP would propose that any such adjustment be reflected as a lump-sum adjustment, net of accumulated reserve for depreciation and accumulated deferred income taxes, to future regulatory filings as a reduction of rate base, rather than requiring a restatement of all the affected accounts on the Company's books.

51. Q. What is your recommendation to the Commission with regards to Ms. Hathhorn's adjustment to capitalized severance costs?

A. The Company believes that the capitalization of a portion of the severance costs is consistent with the Uniform System of Accounts; therefore, Ms. Hathhorn's adjustment should be rejected. Ms. Hathhorn's proposed adjustment hinges on her belief that severance costs are not labor costs and that the capitalization of these costs are based on arbitrary percentages. As I have shown, neither of these assumptions is correct.

IV. Operating Expenses

52. Q. Are there any additional adjustments to operating expenses that have been proposed by Staff or intervenor witnesses that the Company has decided to accept?

A. Yes, The Company is accepting the following additional proposed adjustments:

- * Staff witness Hathhorn's adjustment to eliminate the adjustment associated with the addition of six customer service representatives and two RBC Account Managers sponsored by IP witness Holtzschler;

- * Staff witness Hathhorn's adjustment to the adjustment for wage increases, eliminating the expense for the additional customer service representatives and the two RBC Account Managers (the effect of adopting Ms. Hathhorn's adjustment is shown on IP Exhibit 1.76, which supercedes IP Exhibit 1.44); and

- * CUB/AG witness Effron's adjustment to exclude the test year expenses for the "Duke Engineering" litigation. Any recoveries in this litigation will be recorded below the line.

In addition, as I will describe below, the Company is accepting in part Staff witness Pearce's adjustment for contributions to community organizations. Finally, IP Exhibit 1.77 (supersedes IP Exhibit 1.30) reflects a correction to the calculation of the adjustment for Dynegy Senior Executive Compensation.

53. Q. What issues will you address related to operating expenses in your surrebuttal testimony?

A. I will address the following issues in my surrebuttal testimony:

- A. 1999 Rulemaking and Y2K Expenses
- B. Severance Costs

- C. Incentive Compensation
- D. Functionalization of A&G Expenses/Charges from Dynegy
- E. Injuries and Damages Expense
- F. Amortization Expense for Intangible Plant
- G. Community Organizations Expense

A. 1999 Rulemaking and Y2K Expenses

54. Q. What is your response to Staff witness Hathhorn's continued recommendation to exclude the 1999 expenses incurred by the Company associated with the Standards of Conduct and Affiliate Transactions rulemakings and Y2K expenses?

A. As I stated in my rebuttal testimony, the Company believes that the additional expenses for the two rulemakings and the Y2K expenses that were not included in the revenue requirement in the 1999 DST case are appropriately included and amortized in this proceeding. The Commission allowed the Company to recover the costs associated with these activities in the 1999 DST case. The Company's pro forma adjustment merely includes the final incremental expenses associated with these activities that had not been incurred at the time of the 1999 DST Case.

55. Q. Do you agree with Ms. Hathhorn's statement that in the 1999 DST Case, the Commission "simply allowed the test year expenses and known and measurable adjustments associated with these rulemakings"? (Staff Ex. 10.0, page 7)

A. No, as I explained in my rebuttal testimony, none of the expenses for the rulemakings allowed in the 1999 DST Case were incurred in the test year.

B. Severance Costs

56. Q. What is Staff witness Hathhorn's proposed treatment of severance costs?

519 A. Ms. Hathhorn recommends that all severance costs incurred by the Company in 2000 be
520 disallowed. As I discussed earlier, this includes that portion of the severance costs that was
521 capitalized.

522 57. Q. How do you respond to Ms. Hathhorn's proposed adjustment to severance costs?

523 A. Ms. Hathhorn erroneously concludes that IP's customers will realize no benefits associated with
524 the reduction in operating expenses if the cost of achieving those savings is recovered. In fact,
525 Ms. Hathhorn seriously understates the cost savings, resulting from the severance costs, that are
526 reflected in the Company's filing. She cites the costs excluded from operating expenses
527 associated with transition employees in the Company's adjustment and concludes that that figure
528 represents the projected savings related to the severance costs. Her conclusion is incorrect.
529 The amount included in the transition employee adjustment reflects only the compensation paid
530 to the transition employees, and related expenses, that were incurred during 2000. It does not
531 include the savings in 2000 resulting from not having the transition employees on the Company's
532 payroll subsequent to their termination. IP Exhibit 1.70 sets forth the annualized savings
533 associated with the termination of the transition employees. The total annualized savings are
534 \$25,502,000 for the entire Company, and \$14,765,000 for the electric distribution business.
535 The jurisdictional amount of severance and early retirement expenses included in the test year
536 was \$15,083,000, which IP proposes to amortize over a five-year period resulting in a test year
537 expense of only \$3,017,000. Clearly, the annual savings resulting from the severance and early
538 retirement program far exceed the annual amortization of the costs of the program, by a factor

of almost 5 times. Further, after the proposed five-year amortization period, customers will realize the entire annual level of savings resulting from the reduced work force. In addition, the savings amount would increase each year due to the impact of wage and salary increases that the employees would have received had they remained on the Company's payroll.

58. Q. Should the Commission accept Ms. Hathhorn's proposed adjustment to exclude recovery of all severance costs?

A. No. I realize that Ms. Hathhorn is relying on prior Commission orders relating to merger transaction costs, but I believe that recovery of the Company's severance costs is justified because the Company incurred these costs to produce savings that will reduce the revenue requirement.

59. Q. Do you agree with Ms. Hathhorn's characterization that the severance costs were "incurred to produce an ownership change"? (Staff Ex. 10.0, p. 10)

A. No. The severance costs were not "incurred to produce an ownership change". I agree that some merger transaction costs must be incurred to complete the actual transaction, such as investment banker fees, legal and accounting fees, and a "merger premium" paid in the transaction, if any. The severance costs do not fall into this category.

60. Q. In discussing the prior orders you cited in your rebuttal testimony, Ms. Hathhorn indicates some distinction between severance costs incurred in connection with a merger and costs of an early retirement program. Do the costs included in the Company's adjustment for severance costs include the costs of an early retirement program?

559 A. Yes. As IP Exhibit 1.71 shows, what the Company has described as “severance costs” in this
560 proceeding included \$5,264,000 of expenses associated with an early retirement program;
561 \$718,000 associated with medical insurance, training and outplacement services; \$8,799,000 of
562 severance costs; and \$302,000 of payroll taxes. Each of these figures represents the
563 jurisdictionalized level of expense included in the test year.

564 Most utilities in this country, including Illinois Power, have offered one or more early
565 retirement programs in an effort to reduce payroll costs. The costs associated with the early
566 retirement program represent the additional expenses incurred to bridge the gap from the early
567 retirement age to the expected normal retirement age of the employee. The costs of an early
568 retirement program are a legitimate operating cost and should be recoverable. At a minimum,
569 the Company should be allowed to recover, over an amortization period, the costs associated
570 with the early retirement program, similar to the Commission’s treatment of a previous early
571 retirement program in Dockets 89-0276 and 91-0147.

572 61. Q. Ms. Hathhorn states that the Company identified 21 employees of the 297 included in the
573 adjustment for severance costs and transition costs who were severed due to the Company’s
574 exits from the generation business and from retail energy marketing, and that even if recovery of
575 severance costs is allowed in general, the delivery services revenue requirement should not
576 include the severance costs for these 21 employees. (Staff Ex. 10.0, pp. 11-12) Do you
577 agree?

578 A. No. With respect to the Company's exit from the generation business, the twelve employees
579 included in the severance and transition cost adjustment consisted of four employees who were
580 employed in accounting functions, and eight employees who were employed in the Information
581 Technology ("IT") Department. With respect to the Company's exit from retail energy
582 marketing, the nine employees included in the severance and transition cost adjustment
583 consisted of six employees who were employed in customer service functions, and three
584 employees who were in the IT Department. In short, 15 of these 21 employees were engaged
585 in A&G functions, and 6 of the employees were engaged in customer service functions. The
586 portions of the severance expense and the transition employee expense that are included in the
587 Company's adjustment for severance costs and transition employees are the portion of the costs
588 related to these employees that are allocable to electric distribution. Similarly, had these 21
589 employees continued with the Company, a portion of their compensation expense would have
590 been allocated to electric distribution. Therefore, the severance expenses relating to these 21
591 employees is properly included in the distribution revenue requirement.

592 **C. Incentive Compensation**

593 62. Q. Do you have any response to Ms. Hathhorn's concerns related to the four alternative proposals
594 for incentive compensation expense?

595 A. Yes. First, I would note that the Company continues to believe that incentive compensation is a
596 reasonable and necessary business expense and that inclusion of the test year jurisdictional
597 amount of expense is appropriate. Ms. Hearn is providing additional surrebuttal to Ms.

Hathhorn's rebuttal testimony on incentive compensation expense. The Company presented the four alternative approaches in its rebuttal testimony to be responsive to Ms. Hathhorn's concerns relating to the inclusion in the revenue requirement of a test year expense item that tends to vary from year to year.

The first alternative approach, to use a five-year average, responds to Ms. Hathhorn's concern that the actual expense varies widely from year to year. By using a five-year average instead of the amount for the test year, in which all program objectives were fully met, it also responds to Ms. Hathhorn's "ratepayer protection" concerns.

The second alternative, to allow 50% of the test year amount, responds to Ms. Hathhorn's concern that if no incentive compensation payments are made, ratepayers are not "protected" because the revenue requirement includes a full level of incentive compensation payments. Based on the history of the last nine years and the significance of incentive compensation in IP's overall compensation package, hypothesizing that nothing will be paid in a year is an unrealistic assumption; however, assuming that an amount less than the maximum amount will be paid in a year is a reasonable assumption. The 50% figure is not arbitrary; it was selected to create a 50-50 likelihood that the actual payments during the years that the rates set in this case will be in effect will be greater than or less than the amount of incentive compensation expense included in the revenue requirement. In judging the reasonableness of the 50% figure for this purpose, it must be remembered that the test year, 2000, was a year of strong performance for IP and for the Dynegy organization, resulting in a high level of funding of

618 the incentive compensation pool. I would also reiterate that it is Ms. Hathhorn's
619 recommendation to include zero in the revenue requirement with respect to incentive
620 compensation that is arbitrary, not the 50% assumption used in this alternative.

621 The third alternative, using the budgeted 2001 amount of incentive compensation, was
622 offered in response to Ms. Hathhorn's concern that the program goals change every year; we
623 therefore proposed this alternative which is based on the current program structure and
624 objectives. In addition, since the budgeted amount does not assume full funding of the incentive
625 compensation pool, this alternative also addresses Ms. Hathhorn's concerns regarding lack of
626 ratepayer "protection". If the program objectives are achieved and payments are made beyond
627 the budgeted amount, the above-budget payments would be funded by shareholders (out of the
628 above-budget level of earnings), not by customers. In addition, I do not think the concerns that
629 Ms. Hathhorn expresses about budgeted versus actual historical amounts are valid when we are
630 considering the budgeted amount for only one item (as opposed, for example, to the utility's
631 entire operating or construction budget).

632 I find Ms. Hathhorn's objection to the fourth alternative – to include in the revenue
633 requirement an amount for the additional base pay and related benefits costs IP would need to
634 offer if it had no incentive compensation program – to be the most curious. She says that the
635 estimate of additional base pay expense that Ms. Hearn has provided "is too contrived and
636 estimated to be preferred over actual 2000 expense data," yet she refuses to consider allowing
637 the actual 2000 expense amount, a portion of the actual 2000 expense amounts, or a five-year

average of the actual expense amounts. Ms. Hathhorn has not disputed the basic premise behind this alternative, that IP would need to provide higher base pay and related benefits if it did not have an incentive compensation program, yet she continues to recommend that no provision at all be made in the revenue requirement for this component of compensation expense. The end result of her position is to deny recovery for any portion of this reasonable and necessary compensation expense.

63. Q. Does CUB/AG witness Effron also propose an adjustment to disallow incentive compensation expense?

A. Yes, in his rebuttal testimony, Mr. Effron essentially proposes to allow the test year jurisdictional expense for the union portion of the incentive compensation program, but to disallow the expense for the non-union portion of the program. His objection to the non-union expense is similar to one of Ms. Hathhorn's concerns, namely, that the program is based on objectives that benefit shareholders, not ratepayers. The Company has already responded to this concern in responding to Ms. Hathhorn.

D. Functionalization of A&G Expenses/Charges from Dynegy

64. Q. Does Staff witness Lazare's proposed adjustment regarding the functionalization of A&G expenses mirror his proposal related to G&I plant?

A. Yes, Mr. Lazare recommends that the level of A&G expenses included in operating expenses in this proceeding be limited to a proportional increase in the level of distribution expenses since the 1999 DST case. In his rebuttal testimony, Mr. Lazare makes many of the same points with

respect to both G&I plant and A&G expenses allocated to distribution, so my response earlier in this testimony to Mr. Lazare's rebuttal concerning G&I plant also responds to many of his assertions concerning A&G expense. On pages 12-18 of his rebuttal testimony, Mr. Lazare makes some additional assertions relating to A&G expense alone.

65. Q. Is Mr. Lazare's proposal with respect to A&G expense based upon the labor allocation methodology adopted by the Commission in the 1999 DST case?

A. No, his proposed adjustment is not based on the application of the labor allocation methodology but rather on an unfounded assumption that there is a fixed relationship between distribution O&M expense and the amount of A&G expense needed to operate and support the distribution business. In contrast, IP has used the labor allocator in this case to determine the amount of A&G expense that should be allocated to electric distribution.

66. Q. Would it be appropriate to allocate any A&G expenses to a generation function in this case based on the 2000 test year?

A. No, because the Company owns and operates virtually no generation facilities and, as I have explained earlier in this testimony, had virtually no generation labor recorded in 2000.

67. Q. Mr. Lazare complains that the Company only reduced A&G expenses by three percent from 1997 to 2000 despite the divestiture of the Company's generating assets. How do you respond?

A. I have presented in my rebuttal testimony an explanation of the increases in the Company's electric A&G expenses since 1997 by FERC account, including a detailed discussion of the

FERC accounts which exhibited large increases over this period. Mr. Lazare has not responded to this detailed presentation by identifying any specific costs that he contends are unreasonable, or unnecessary to support the distribution business. Rather, he has done nothing more in his rebuttal than continue to complain about what he perceives to be an unduly large increase in the amount of A&G expense included in the jurisdictional revenue requirement.

The expense levels that Mr. Lazare cites at page 13 of his rebuttal testimony are at the total electric level and include unusual and nonrecurring costs that are removed for ratemaking purposes. IP Exhibit 1.72 compares the total electric A&G expenses in 1997 and 2000, with significant unusual and nonrecurring expenses removed. There were no significant unusual and nonrecurring costs in the 1997 electric A&G expenses that were removed for ratemaking purposes in the 1999 DST case, but there are a number of significant unusual and nonrecurring costs in the 2000 A&G expenses that IP is removing for ratemaking purposes. As the exhibit shows, when significant and unusual and nonrecurring items are removed, the Company has reduced the level of ongoing electric A&G expenses by over 53% since 1997.

68. Q. Mr. Lazare complains that IP proposes to increase A&G expenses after ratemaking adjustments by 196% over the amount allowed in the 1999 DST case. What is the percentage increase in the Company's proposed O&M plus A&G expenses over the amounts allowed in the 1999 DST case?

A. The sum of the Company's proposed O&M, Customer Accounts, Customer Service and Information, A&G and Taxes Other than Income Taxes expense in this case, as presented in IP

witness Mortland's surrebuttal testimony, represents a 27% increase over the amounts allowed in the 1999 DST case for these same expense items.

69. Q. How do you respond to Mr. Lazare's assertion that IP has no interest in sharing savings resulting from the merger with Dynegy with its customers (Staff Ex. 14.0, p. 15, beginning at line 324)?

A. Mr. Lazare's statement is unfounded. As I described in my rebuttal testimony, the Company has achieved post-merger cost savings. To the extent that the cost savings occurred during the test year or are being realized after the test year and are known and measurable, those savings are reflected in the proposed revenue requirement. Further, the classification of the Company's costs and the allocation of costs among IP and its affiliates is largely governed by such things as the FERC and ICC accounting rules and the Services & Facilities Agreement between IP and the other Dynegy entities. IP would have very little if any ability to "keep" merger-related savings for itself even if it tried. In any event, the increase in IP's jurisdictional A&G expenses over the levels proposed and allowed in the 1999 DST case is not based on any failure to share merger savings with customers, but rather results from the application of the labor allocator to the various categories of labor dollars that IP incurred in the 2000 test year.

70. Q. How do you respond to Mr. Lazare's assertion that you have not shown that the expenses incurred to provide services to AmerGen are accounted for in a manner consistent with the functional methodology approved by the Commission in the 1999 DST Case?

A. The AmerGen Service Agreement governs the pricing and costing of the services provided to

718 AmerGen. As I explained in my rebuttal testimony, the services provided to AmerGen were
719 priced based on IP's fully distributed costs plus a markup, and because both the revenues and
720 the expenses were recorded in a below-the-line account, these activities have no impact on the
721 electric distribution revenue requirement in this proceeding. In addition, with respect to services
722 provided to the Company's affiliates, these activities are priced and performed in accordance
723 with the Services and Facilities Agreement approved by the Commission. As I also explained in
724 my rebuttal testimony, the revenues and expenses for services performed for DMG and for
725 Dynegy were recorded in such a manner that the revenues and expenses have no impact on the
726 distribution revenue requirement in this proceeding.

727 71. Q. Do you agree with Mr. Lazare's suggestion that delivery services customers are being penalized
728 as a result of a larger allocation of A&G expenses to the electric distribution business following
729 the Company's divestiture of its generation (Staff Ex. 14.0, p. 17)?

730 A. No. Delivery services rates are being set based on the costs that support the distribution
731 business. Mr. Lazare has not identified any costs or activities in IP's proposed revenue
732 requirement that are not needed to support the distribution function.

733 72. Q. Does IIEC witness Phillips also address the functionalization of A&G expenses in his rebuttal
734 testimony?

735 A. Yes, Mr. Phillips continues to advocate that A&G expenses should be assigned to the electric
736 distribution business based on the proportionate increase in non-A&G O&M expense over the
737 amount allowed in the 1999 DST case.

738 73. Q. Has Mr. Phillips offered any additional support for his position in his rebuttal testimony?

739 A. No, Mr. Phillips merely recites one of the Company's responses to a data request stating that I
740 have performed no studies related to the most economic and efficient level of A&G expenses
741 required to provide distribution services to Illinois Power Company's customers. (IIEC Ex. 6,
742 p. 2, beginning at line 16). He also notes the increase in Account 923, representing the charges
743 for services formerly provided by IP that are now provided by Dynegy, and questions whether
744 it would have been more economical to have those services continue to be provided by IP or by
745 a third party.

746 74. Q. How do you respond to Mr. Phillips' criticism?

747 A. Like Mr. Lazare, Mr. Philips has continued to focus on the overall levels of increase and has not
748 responded to the detailed presentations in my rebuttal testimony on (1) the changes in A&G
749 expenses from 1997 to 2000, by account, or (2) the nature of the services provided by Dynegy,
750 with any identification of specific unreasonable or excessive costs.

751 With respect to his contention about lack of studies as to the most efficient and economical
752 level of A&G expense, my response is similar to my response to Mr. Phillips' similar claim
753 about G&I plant. Further, although I have performed no studies to determine the most efficient
754 and economical level of A&G expenses for the Company, IP Exhibits 1.51, 1.52, 1.53 and
755 1.72 demonstrate that the Company has been successful in reducing its overall level of A&G
756 expenses.

757 Mr. Phillips' comments relating to the increase in expenses recorded in Account 923 due to

charges for services provided by Dynegy ignore the discussion in my rebuttal testimony on the significant headcount reductions and internal expense reductions the Company has realized subsequent to the Illinova-Dynegy merger as a result of shifting functions to Dynegy, where similar functions were already being performed. These are some of the merger efficiencies which Mr. Lazare has complained have not been fully manifested. Finally, there is no basis for asserting that the Company should have considered having these functions performed by a third party rather than by Dynegy.

75. Q. Please respond to CUB/AG witness Effron's proposed adjustment to eliminate the expense for the services provided by Dynegy to IP.

A. As I noted earlier, my rebuttal testimony explained the nature of the services provided by Dynegy and also identified areas where the Company has reduced headcount and expense subsequent to the merger and the shifting of functions to Dynegy. I also provided explanations for those FERC A&G accounts that have experienced significant increases since the 1999 DST case, including IP Exhibit 1.72 which shows that A&G costs have, in fact, declined by 53 percent since 1997. Like Mr. Lazare and Mr. Phillips, Mr. Effron does not specifically respond to these discussions by identifying specific activities, functions or cost elements that he contends are unreasonable or excessive. Rather, at base, he simply continues to complain about what he believes to be a large increase in A&G expense compared to the 1999 DST case. The fact that there has been a large increase in A&G expense compared to the 1999 DST case does not justify the arbitrary elimination of an entire category of A&G expense, as Mr. Effron proposes.

E. Injuries and Damages Expense

76. Q. Please summarize CUB/AG witness Effron's position regarding certain Injuries and Damages expenses.

A. In his direct testimony, Mr. Effron proposed the disallowance of an accrued expense associated with potential liabilities that the Company recorded during 2000. In my rebuttal testimony, the Company proposed that the accrued expense be amortized over a three-year period. As I explained in my rebuttal testimony, the Company's creation of the accrual is consistent with Statement of Financial Accounting Standards No. 5, Accounting for Contingencies ("SFAS 5").

Mr. Effron has not refuted the appropriateness of recording the expense. Mr. Effron's sole response is that the test year expenses should not include both actual claims paid and an accrual for future payments. (Ex. GCI 4.0, p. 11, beginning at line 21).

77. Q. How do you respond to Mr. Effron's proposed adjustment?

A. The Company appropriately recorded the accrued expense associated with the liability during the year 2000. Given that the expense level represented an atypical level of expenses, the Company has proposed to amortize the accrued expense over a three-year period. By amortizing the expense, the level of electric distribution operating expenses more closely represents a typical level of expenses and the Company is allowed to recover those costs that were reasonably incurred associated with the provisioning of electric distribution services. For these reasons, Mr. Effron's proposed adjustment to Injuries and Damages expenses should be rejected.

F. Amortization Expense

78. Q. Please summarize CUB/AG witness Effron's proposed adjustment to amortization expense.

A. Mr. Effron continues to propose a reduction in the level of amortization expense allowed in test year operating expenses based upon his belief that intangible plant will be completely amortized by June 2003. Mr. Effron provides no additional support for his adjustment in his rebuttal testimony.

As I stated in my rebuttal testimony, IP makes investments in new intangible plant every year. Given the additions to intangible plant, it is unlikely that such plant will be fully amortized prior to rates being established in any rate proceeding filed subsequent to this case. Further, as Staff witness Everson correctly states, "the appropriate amortization rate should be determined based on the useful life of an asset, not the frequency of a Company's rate case filings." (Staff Ex. 11.0, p. 4, beginning at line 65). For these reasons, Mr. Effron's proposed adjustment to amortization expense should be rejected.

G. Community Organizations Expense

79. Q. Has Staff witness Pearce recommended that IP's expenses incurred associated with community organizations, Chambers of Commerce, and certain other organizations be disallowed?

A. Yes, Ms. Pearce has classified these expenses as promotional and goodwill expenses and proposed that the Company not be allowed to recover these costs.

80. Q. Do you agree with Ms. Pearce's adjustment?

A. I do in part. Specifically, the Company agrees that the portion of this expense item that

represents dues paid to the Illinois Energy Association should be eliminated. The IEA is not a community organization of the nature of the other organizations to which IP has made contributions that are included in Ms. Pearce's proposed adjustment amount. The exclusion of the portion of this expense constituting IEA dues is shown on IP Exhibit 1.73. With respect to the remainder of the organizations, I do not agree with Ms. Pearce's conclusion that the expenses associated with these organizations should be "characterized as dues or promotional activities for which IP received membership or promotional benefits". (Staff Ex. 12.0, beginning at lines 51).

81. Q. Does the Company participate in these organizations for promotional benefits?

A. No. IP belongs to, actively participates in, and otherwise supports those organizations that are geared towards the enhancement, growth and advancement of IP's service territory. The Company's participation in the activities of these organizations is beneficial to the customers in its service area.

82. Q. Does this conclude your surrebuttal testimony?

A. Yes, it does.

ILLINOIS POWER COMPANY
Adjustment for Corporate Capital Additions
For the Period January 1, 2001 through September 30, 2001

<u>Line No.</u>	<u>Program (A)</u>	<u>Program Area (B)</u>	<u>Total Company Adjustment (C)</u>	<u>Jurisdictional Allocator (D)</u>	<u>Jurisdictional Pro Forma (E)</u>
1	720	Central Computing and Admin	\$ 3,715	57.9%	\$ 2,151
2	941	Records Management	64	57.9%	37
3	1035	Printing Services	312	57.9%	180
4	1048	Administrative Services	483	57.9%	280
5	1049	Building Maintenance	1,032	57.9%	597
6	1167	Purchasing and Materials Control	320	57.9%	186
7	2246	Distributed Computing	3,410	57.9%	1,974
8	2289	WAN(Wide Area Network)	569	57.9%	330
9	2290	LAN (Local Area Network)	13,512	57.9%	7,824
10	2291	PBX/Centrex	1,520	57.9%	880
11	2292	Voice	30	57.9%	17
12	2293	Other	311	57.9%	180
13	2301	Application Development - Infrastructure	163	57.9%	94
14	2304	AD - Infrastructure to Capital	1,931	57.9%	1,118
15	2359	AD - Enhancements	128	57.9%	74
16	2360	AD - Capital	3,808	57.9%	2,205
17		Retirements	(12,675)	57.9%	(7,339)
18		Total	<u>\$ 18,634</u>		<u>\$ 10,789</u>

ILLINOIS POWER COMPANY
Adjustment to Reserve for Accumulated Depreciation and Amortization
(Thousands of Dollars)

Line No.	Adjustment (A)	IP Witness Sponsoring Adjustment (B)	Adjustments to Plant (C)	Accumulated Depreciation - Distribution Plant (D)	Accumulated Depreciation - General Plant (E)	Accumulated Amortization - Intangible Plant (F)	Total Adjustment (G)
1	Energy Delivery Capital Additions	Barud	\$ 70,864 (1)	\$ 19,159	\$ 67	\$ (130)	19,095
2	Corporate Capital Additions	Carter	10,789	-	7,284	(339)	6,945
3	Load Research Project Additions	Jones	1,606	(19)	-	-	(19)
4	FAS 109 Gross Up	Carter	(2,216)	717	75	-	792
5	Plant Transferred from CWIP to UPIS	Barud/Carter	8,458	-	(74)	(255)	(329)
6	Facilities No Longer in Use	Barud/Carter	(7,346)	-	6,934	-	6,934
7	Total		<u>\$ 82,154</u>	<u>\$ 19,857</u>	<u>\$ 14,285</u>	<u>\$ (724)</u>	<u>\$ 33,419</u>

		Electric Distribution	Electric General Plant	Electric Intangible Plant	Total
8	Note (1):				
9	Capital additions (Revised IP Exhibits 2.18, 2.19 and 2.20, respectively)	\$ 92,739	\$ 2,046	\$ 1,303	\$ 96,088
10	Retirements related to the above additions	(12,543)	(70)	-	(12,612)
11	Additions net of retirements	<u>\$ 80,196</u>	<u>\$ 1,977</u>	<u>\$ 1,303</u>	<u>\$ 83,476</u>

To Col. C., Line 1

ILLINOIS POWER COMPANY
Adjustment for Cash Working Capital
(Thousands of Dollars)

Line No.	Description	Jurisdictional Pro Forma (in Thousands of Dollars)				Working Capital (Required) Provided
		Unadjusted Cash Working Capital	Pro Forma Adjustments	Adjusted Cash Working Capital	Lag/(Lead) Days	
	(A)	(B)	(C)	(D)	(E)	(F)
1	OPERATING REVENUES (\$000)	305,232	(5,765)	299,467		
2	Return on Equity	(81,355)	-	(81,355)		
3	OPEB	(2,062)	37	(2,025)		
4	Deferred Income Taxes	(6,776)	(2,042)	(8,817)		
5	Investment Tax Credit	573	-	573		
6	Depreciation	(42,532)	(3,619)	(46,151)		
7	<i>Total Cash Operating Revenues</i>	173,080	(11,389)	161,691	36.0265	15,959
8	OPERATING EXPENSES					
9	Operating and Maintenance Expenses					
10	Payroll	32,944	(241)	32,702	(14.0266)	(1,257)
11	Injuries and Damages - Claims	8,942	(2,582)	6,360	-	-
12	Injuries and Damages - Premiums	942	98	1,041	182.5000	520
13	Property Insurance	(1,406)	1,878	472	182.5000	236
14	Pensions/Benefits	9,060	(5,311)	3,749	(25.932999)	(266)
15	Other O&M	78,918	(14,536)	64,382	(32.6142)	(5,753)
16	Uncollectible Accounts	1,281	-	1,281	(241.3740)	(847)
17	<i>SubTotal</i>	129,739	(20,792)	108,946	51.0523	(7,367)
19	General Taxes					
20	Employer FICA	4,473	(327)	4,147	(11.8461)	(135)
21	Invested Capital Tax/Electric Distribution Tax	26,426	-	26,426	(25.0253)	(1,812)
22	Property Tax	1,319	23	1,341	(399.7019)	(1,469)
23	Franchise Tax	809	-	809	(62.0000)	(137)
24	Public Utility Taxes	-	-	-	-	-
25	Municipal Utility Taxes	-	-	-	-	-
26	ICC Assessment	-	-	-	-	-
27	Other Taxes Not Income	561	-	561	(32.6142)	(50)
28	<i>SubTotal</i>	33,589	(304)	33,285		(3,603)
29	Current Income Taxes					
30	Federal	7,987	7,729	15,716	(34.1250)	(1,469)
31	State	1,765	1,708	3,473	(45.8250)	(436)
32	<i>SubTotal</i>	9,753	9,437	19,190		(1,905)
33	TOTAL COST OF SERVICE	173,080	(11,659)	161,421		(12,875)
34	Cash Working Capital - Operations					3,084
35	Adjustment for Revenue Taxes					-
36	Total Cash Working Capital					<u>\$ 3,084</u>

ILLINOIS POWER COMPANY
Adjustment to Accumulated Deferred Income Taxes
(Thousands of Dollars)

<u>Line No.</u>	<u>Description</u> (A)	<u>Federal Deferred Income Tax</u> (B)	<u>State Deferred Income Tax</u> (C)	<u>Total Jurisdictional Deferred Tax</u> (D)
1	EDEL Capital Additions	\$ 1,955	\$ 432	\$ 2,388
2	Corporate Capital Additions	1,369	301	1,670
3	Load Research Meter Project	27	6	33
4	CWIP to Plant In Service	238	52	289
5	Facilities no Longer in Use	(208)	(46)	(255)
6	Net Adjustment	<u>\$ 3,380</u>	<u>\$ 745</u>	<u>\$ 4,125</u>

ILLINOIS POWER COMPANY
Retirements and Cost of Removal
January 1, 2001 Through September 30, 2001
(Thousands of Dollars)

Line No.	FERC Acct	Description	Retirements		Cost of Removal	Net Impact on Reserve (B) = (C)+(D)
			Plant in Service	Accumulated Reserve for Depreciation		
	(A)		(B)	(C)	(D)	
1	360		0	0	0	0
2	361	Based upon analysis of historical level of retirements over a 10 year period	(117)	117	73	191
3	362	Based upon analysis of historical level of retirements over a 10 year period	(2,216)	2,216	1,384	3,600
4	363		0	0	0	0
5	364	Based upon analysis of historical level of retirements over a 10 year period	(3,131)	3,131	1,957	5,088
6	365	Based upon analysis of historical level of retirements over a 10 year period	(3,120)	3,120	1,950	5,070
7	366	Based upon analysis of historical level of retirements over a 10 year period	(810)	810	506	1,316
8	367	Based upon analysis of historical level of retirements over a 10 year period	(1,215)	1,215	759	1,974
9	368	Based upon analysis of historical level of retirements over a 10 year period	(1,236)	1,236	772	2,008
10	369		0	0	0	0
11	370	Based upon analysis of historical level of retirements over a 10 year period	(656)	656	127	783
12	371		0	0	0	0
13	372		0	0	0	0
14	373	Based upon analysis of historical level of retirements over a 10 year period	(41)	41	26	67
15	389		0	0	0	0
16	390		0	0	1	1
17	391	Retirement of PC Equipment	(7,309)	7,309	4	7,313
18	392		0	0	8	8
19	393		0	0	0	0
20	394		0	0	0	0
21	395		0	0	0	0
22	396		0	0	0	0
23	397	Retirement of Communication Facilities and Equipment	(100)	100	34	134
24	398		0	0	0	0
25	303		0	0	0	0
29	Total		<u>\$ (19,951)</u>	<u>\$ 19,951</u>	<u>\$ 7,601</u>	<u>\$ 27,553</u>

ILLINOIS POWER COMPANY
Accumulated Deferred Tax Balances Unrelated to Rate Base Items
As of December 31, 2000

Line No.	PF	Description	Deferred Tax Balance at 12/31/00
	(A)	(B)	(C)
1	190960	Interest on Tax Issues	\$ 350,107
2	190961	Interest on Tax Issues	77,378
3	190950	OPEB Expense/Funding	(1,216,849)
4	190951	OPEB Expense/Funding	(266,147)
5	190950	Pension Expense/Funding	6,348,378
6	190951	Pension Expense/Funding	1,416,299
7	190960	Reserve - Miscellaneous	2,779,053
8	190961	Reserve - Miscellaneous	614,202
9	190960	Vacation Pay Accrual	1,613,895
10	190961	Vacation Pay Accrual	356,689
11		Deferred Tax Items Considered by CUB/AG witness Effron	<u>12,073,003</u>
12	190960	Allowance for Doubtful Accounts	301,520
13	190961	Allowance for Doubtful Accounts	66,639
14	190950	Bloomington Sale Agreement	14,044
15	190951	Bloomington Sale Agreement	2,855
16	190950	Coal Tar Clean-Up Costs	75,050
17	190951	Coal Tar Clean-Up Costs	16,587
18	190960	Consumable Inventory	93,834
19	190961	Consumable Inventory	20,739
20	190960	Def. Director Comp.	249,541
21	190961	Def. Director Comp.	55,152
20	190950	Cust. Advances for Construction	359,470
21	190951	Cust. Advances for Construction	82,683
22	190960	ESOP/Officer Comp/Dir Fees	(74,176)
23	190961	ESOP/Officer Comp/Dir Fees	(17,472)
24	190950	Gain on Reacquired Debt	343,577
25	190951	Gain on Reacquired Debt	75,934
26	190960	PUT Accrual	962,123
27	190961	PUT Accrual	212,733
28	190960	Reserve - CSBG Lawsuit	162,435
29	190961	Reserve - CSBG Lawsuit	35,900
30	190960	Severance Accrual	156,801
31	190961	Severance Accrual	34,655

ILLINOIS POWER COMPANY
Accumulated Deferred Tax Balances Unrelated to Rate Base Items
As of December 31, 2000

Line No.	PF	Description	Deferred Tax Balance at 12/31/00
	(A)	(B)	(C)
32	283950	Coal Tar Clean-Up Costs	196,070
33	283951	Coal Tar Clean-Up Costs	43,336
34	283960	ESOP/Officer Comp/Dir Fees	(873,802)
35	283961	ESOP/Officer Comp/Dir Fees	(193,938)
36	283950	Loss on Recquired Debt	(10,460,487)
37	283951	Loss on Recquired Debt	(2,293,805)
38	283960	PUT Accrual	(928,464)
39	283961	PUT Accrual	(166,625)
40		Other Non-Rate Base Related Deferred Tax Items	<u>(11,447,090)</u>
41		Total Non-Rate Base Related Deferred Tax Items	<u>\$ 625,913</u>

ILLINOIS POWER COMPANY
Annualized Savings Associated with Transition Employees
Based Upon 2000 Wages

<u>Line No.</u>	<u>No. of Employees</u>	<u>Annualized Salaries</u>	<u>Pension and Benefit Cost Adjustment</u>	<u>FICA Adjustment</u>	<u>Medicare Adjustment</u>	<u>Federal Unemployment Adjustment</u>	<u>State Unemployment Adjustment</u>	<u>Total Company Payroll and Payroll Tax Adjustment Based Upon Actual Wages</u>	<u>Jurisdictional Electric Delivery Amount of Adjustment</u>
	(A)	(B)	15.205% (C)	6.2% of first \$80,400 (D)	1.45% (E)	.8% of first \$7,000 (F)	1% of first \$9,000 (H)	(I)	57.90% (J)
1	<u>297</u>	<u>\$ 20,857,320</u>	<u>\$ 3,171,356</u>	<u>\$ 1,127,046</u>	<u>\$ 302,431</u>	<u>\$ 16,632</u>	<u>\$ 26,730</u>	<u>\$ 25,501,515</u>	<u>\$ 14,765,377</u>

ILLINOIS POWER COMPANY
Breakdown of Severance and Early Retirement Costs
For the Twelve Months Ended December 31, 2000

Line No.	Account (A)	Description (B)	Total Company (C)	Electric Allocation (D)	Total Electric (E)	Electric Distribution Allocation (F)	Total Distribution (G)	O&M Allocation (H)	Jurisdictional Distribution Expense (I)
1	926015	Pension	\$ 10,246	73.18%	\$ 7,498	87.96%	\$ 6,595	73.20%	\$ 4,828
2	926015	OPEB	925	73.18%	677	87.96%	595	73.20%	436
		Total Early Retirement Costs	11,170		8,175		7,191		5,264
3	926015	Medical & Insurance	1,102	73.18%	807	87.96%	710	73.20%	519
4	926015	Training and Education	55	73.18%	41	87.96%	36	73.20%	26
5	926015	Outplacement Cost	367	73.18%	269	87.96%	236	73.20%	173
6		Outplacement Costs	1,525		1,116		982		718
7	926016	Officer Severance	818	73.42%	601	87.96%	528	73.20%	387
8	920006	Severance Pay	17,853	73.18%	13,065	87.96%	11,492	73.20%	8,412
		Total Severance Costs	18,672		13,666		12,021		8,799
9	408	Payroll Taxes	457	74.96%	343	87.96%	302	100%	302
10		Total Early Retirement, Outplacement and Severance Costs	\$ 31,824		\$ 23,300		\$ 20,495		\$ 15,083

ILLINOIS POWER COMPANY
 Analysis of Changes in Administrative and General Expenses
 For the Periods Ending December 31, 1997 and December 31, 2000

Line No.	Description (A)	1997 (B)	2000 (C)	% Increase / Decrease (D)
1	Total Electric A&G Expenses (per FERC Form 1)	<u>\$ 73,591,137</u>	<u>\$ 71,635,035</u>	-2.66%
2	Significant Unusual and Non-recurring Expenses removed for Ratemaking Purposes			
3	Severance Costs Accrued During 2000	-	(23,299,806)	
4	Salaries and Benefits Associated with Transition Employees	-	(4,417,240)	
5	Injuries and Damages Expense	-	(5,500,000)	
6	Correction of S&FA Allocation Methodology	-	(1,176,617)	
7	Incentive Compensation Accrued Expense	-	(1,600,000)	
8	Duke Litigation Expenses	-	(1,170,856)	
10	Subtotal	<u>-</u>	<u>(37,164,518)</u>	
11	Total Adjusted A&G Expenses Before Functionalization	<u><u>\$ 73,591,137</u></u>	<u><u>\$ 34,470,517</u></u>	<u><u>-53.16%</u></u>

ILLINOIS POWER COMPANY
Elimination of IEA Dues
For the Twelve Months Ended December 31, 2000

<u>Line No.</u>	<u>Payee</u> (A)	<u>Total Amount</u> (B)	<u>Allocation</u> (C)	<u>DST Amount</u> (D)
1	Illinois Energy Association	23	71.44%	16
2	Illinois Energy Association	19	71.44%	14
3	Illinois Energy Association	19	71.44%	14
4	Illinois Energy Association	15	71.44%	11
5	Illinois Energy Association	24	71.44%	17
6	Total of IEA Invoices	<u>100</u>		<u>72</u>

Note: The 71.44% allocation factor represents the average "D" allocator as set forth on WPAD-30.19.

ILLINOIS POWER COMPANY
Adjustment to Accumulated Reserve for Depreciation
(000s)

Line No.	Accumulated Reserve for Depreciation (A)	Jurisdictional Balance at 12/31/00 (B) AD-008	2000 Deprec Exp (C) AD-012	9 mos of 2001 (D) (C) * 50%	Total (Credit to Reserve) (E)
1	Distribution	\$ (573,562)	\$ 31,890	\$ 15,945	\$ (15,945)
2	General	(47,759)	4,983	2,492	(2,492)
3	Intangible	(49,696)	5,659	2,830	(2,830)
4	Total	<u>\$ (671,017)</u>	<u>\$ 42,532</u>	<u>\$ 21,266</u>	<u>\$ (21,266)</u>

	Accumulated Deferred Income Taxes (A)	Jurisdictional Balance at 12/31/00 (B) AD-021	9 mos of 2001 (C) AD-021	Jurisdictional Balance at 9/30/01 (D) AD-021
5	State (excluding FAS 109)	\$ (28,837)	\$ (622)	\$ (29,460)
6	Federal (excluding FAS 109)	(144,538)	(2,826)	(147,364)
7	Total (excluding FAS 109)	<u>\$ (173,375)</u>	<u>\$ (3,448)</u>	<u>\$ (176,823)</u>

ILLINOIS POWER COMPANY
Adjustment to Reflect Increased Depreciation and Amortization Expense
(Thousands of Dollars)

Line No.	Account Depreciation (A)	Adjustment (B)
1	Depreciation Expense -- Distribution Plant	
2	2001-2002 Energy Delivery Capital Additions	\$ 1,861
3	2001-2002 Jurisdictional Corporate Capital Additions	-
4	Load Research Meter Project	38
5	Total	<u>1,899</u>
6	Depreciation Expense -- General Plant	
7	2001-2002 Energy Delivery Capital Additions	37
8	2001-2002 Jurisdictional Corporate Capital Additions	173
9	Plant Transferred from CWIP to In Service	148
10	Facilities No Longer in Use	(152)
11	Total	<u>206</u>
12	Amortization Expense	
13	2001-2002 Energy Delivery Capital Additions	261
14	2001-2002 Jurisdictional Corporate Capital Additions	677
15	Plant Transferred from CWIP to In Service	509
16	Total	<u>1,447</u>
17	Total Pre-Tax Adjustment	3,552
18	Federal Income Taxes -- 32.487%	(1,154)
19	State Income Taxes -- 7.18%	(255)
20	Net Adjustment	<u>\$ 2,143</u>

ILLINOIS POWER COMPANY
Payroll Adjustment
(Thousands of Dollars)

Line No.	Location/Business Group (A)	Jurisdictional Adjusted Wages (B)	Increase in Wages effective 7/01/01 (C)	Pro Forma Wage Increase (D)
1	Distribution	\$ 25,404	3.00%	\$ 762
2	Customer Accounts	6,180	3.00%	185
3	Customer Service and Informational	3,845	3.00%	115
4	Sales	-	3.00%	-
5	Administrative and general	<u>11,610</u>	3.00%	<u>348</u>
6	Pre-Tax Total	<u>47,039</u>		<u>1,411</u>
7	Federal Income Taxes -- 32.487%			(458)
8	State Income Taxes -- 7.18%			<u>(101)</u>
9	Net Adjustment			<u>\$ 851</u>

ILLINOIS POWER COMPANY
Adjustment for Dynegy Senior Executive Compensation
(Thousands of Dollars)

Line No.	Account Description (A)	Jurisdictional Adjustment (B)
1	Reversal of Bonuses Accrued for Senior Executives (portion allocated to electric distribution)	\$ (7,445)
2	Federal Income Taxes -- 32.487%	2,419
3	State Income Taxes -- 7.18%	<u>535</u>
4	Net Adjustment	<u><u>\$ (4,491)</u></u>